

Message Text

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ACTION OPIC-06

INFO OCT-01 EUR-12 ISO-00 EB-08 AID-05 L-03 SP-02 USIA-06

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 LAB-04

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC 0061

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DEPT. PASS TO OPIC FOR HUNT

E.O. 11652: N/A

TAGS: EINV, PO

SUBJECT: OPIC INVESTMENT PROGRAM IN PORTUGAL

REF: A) STATE 304696 B) LISBON 7667

SUMMARY. OPIC ACTING GENERAL COUNSEL CECIL HUNT VISITED PORTUGAL JANUARY 28 - FEBRUARY 3 TO DISCUSS OPIC MATTERS WITH GOP, EMBASSY AND PRIVATE SECTOR CONTACTS. SUBSTANTIVE DIFFERENCES ON RESUMPTION OF OPIC PROGRAM APPARENTLY RESOLVED AND PROCESS FOR EXCHANGE OF NOTES ARRANGED. RESUMPTION OF OPIC PROGRAM NOW DEPENDENT UPON GOP POLITICAL DECISION. END SUMMARY.

1. HUNT MET WITH THREE OF FIVE MEMBERS OF GOP COMMISSION TO INSTALL THE FOREIGN INVESTMENT INSTITUTE TO DISCUSS TECHNICAL ASPECTS OF PROGRAM RESUMPTION. PRIMARY GOP CONCERN INVOLVED PRINCIPLE OF SUBROGATION COVERED IN PARA (C) OF MAY 22, 1953 EXCHANGE OF NOTES. GOP REPRESENTATIVE CONCERNED THAT TEXT IMPLIED THAT UPON SUBROGATION TO USG, GOP WOULD BE LIABLE FOR AN AMOUNT EQUAL TO OPIC PAYMENT OF CLAIM TO INSURED PARTY REGARDLESS OF GOP DETERMINATION OF VALUE OF EXPROPRIATED
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ASSET. GOP FELT THAT TEXT IMPLIED IT MIGHT HAVE TO PAY SOME COMPENSATION TO INVESTOR AND FURTHER COMPENSATION TO USG IF GOP AND INVESTOR VALUATION OF ASSET DIFFERED. HUNT PROVIDED AIDE MEMOIRE TO INSTITUTE WITH LEGAL INTERPRETATION OF THIS POINT. HUNT ALSO CLARIFIED WORDING REGARDING TRANSFER TO USG OF COMPENSATION RECEIVED FROM SOURCES OTHER THAN USG (PARA (A) SAME NOTE),

DEFINITION OF EXPOPRIATION AND TIMING OF CLAIMS.

3. COMMISSION MEMBERS ORIGINALLY STATED THAT RESUMPTION OF PROGRAM MIGHT BE DELAYED UNTIL GOP FORMULATED AND IMPLEMENTED OTHER ASPECTS OF FOREIGN INVESTMENT POLICY, E.G., ESTABLISHMENT OF INSTITUTE, REVISION OF INVESTMENT CODE, SIGNATURE OF OTHER BILATERAL INVESTMENT AGREEMENTS SUCH AS ONE WITH FRG. HUNT EXPLAINED THAT NOTHING IN OPIC AGREEMENT WOULD AFFECT GOP POLICY IN OTHER AREAS AND COMMISSION MEMBERS LATER AGREED THAT THEY WOULD RECOMMEND THAT GOP GO AHEAD ASAP. TELLING ARGUMENT APPARENTLY WAS REALIZATION OF FAVORABLE PSYCHOLOGICAL EFFECT ON FOREIGN INVESTMENT OF PORTUGAL BEING ELIGIBLE FOR OPIC PROGRAM. AFTER AGREEING THAT LONG DELAY IN RESUMTIIPN NOT ADVISABLE, HUNT AND COMMISSION MEMBERS AGREED THAT THERE WOULD BE NO DISCUSSION OF POSSIBLE NEW AGREEMENT AT THIS TIME. IN ADDITION, GOP REP STATED AGREEMENT TO RESUME PROGRAM WOULD NOT NEED TO BE SUBMITTED TO ASSEMBLY, ALTHOUGH THEY NOT AS CERTAIN ABOUT POSSIBLE NEW AGREEMENT. COMMISSION MEMBERS WILL INFORM MINISTER SOUSA GOMES THAT THERE ARE NOW NO SUBSTANTIVE PROBLEMS AND RECOMMEND IMMEDIATE EXCHANGE OF NOTES. GOP REPS MADE IT CLEAR THAT EXCHANGE DEPENDED UPON MINISTERIAL DECISION.

4 DURING MEETING AT FOREIGN MINISTRY, ECONOMIC DIVISION AMERICAN AND EUROPE DESK OFFICER INIDCATED THAT USG SUGGESTED PROCEDURE FOR EXCHANGE OF NOTES WOULD BE ACCEPTABLE.

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5. HUNT ALSO MET WITH BANK OF PORTUGAL VICE GOVERNOR VITOR CONSTANCIO AND DISCUSSED OPIC AGREEMENT AND INVESTMENT CLIMATE IN GENERAL. CONSTANCIO NOTED BANK OF PORTUGAL WOULD CONTINUE HAVE IMPORTANT ROLE IN REGARD FOREIGN INVESTMENT BUT HOPED THAT MOST OF ATTRACTION AND FACILITATION PROGRAMS COLD BE CENTERED IN INSTITUTE.

6. WITH REGARD TO SITENOR CASE, HUNT DISCUSSED IT WITH VASCO DE MELLO, A MEMBER OF SITENOR BOARD. DE MELLO STATED HE AGREED WITH CUF REPRESENTATIVES WHO VOTED AGAINST DIVIDEND PAYMENT ON GROUNDS THAT PAYMENT WOULD MAKE SITENOR LIQUIDITY SITUATION EVEN TIGHTER, THAT WORKERS WOULD NOT UNDERSTAND DIVIDEND PAYMENT WHEN FIRM LOST MONEY IN 1976, AND THAT GOP MIGHT NOT AUTHORIZE REMITTANCE OF FUNDS. DE MELLO STRESSED THAT DIVERSIFICATION OF SITENOR'S PRODUCTION IS FIRM'S HIGHEST PRIORITY.

7. COMMENT: EMBASSY BELIEVES THAT COMMISSION HAS NO TECHNICAL RESERVATIONS AND IS SERIOUSLY COMMITTED TO

RESUMPTION OF PROGRAM ASAP. EMBASSY HAS NO INDICATION THAT
GOP HAS POLITICAL RESERVATION. BUREAUCRATIC INERTIA COULD
CAUSE DELAYS BUT EMBASSY WILL KEEP IN CLOSE CONTACT WITH MINISTER
OF PLAN AND WITH INSTALLATION COMMISSION. WILL INFORM OPIC
AS SOON AS MORE INFORMATION AVAILABLE.
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Disposition Approved on Date:
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Disposition History: n/a
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